Canada Northwest Land Limited

annual report 1977

Canada Northwest Land Limited

DIRECTORS:

S. L. Christensen
New York City, U.S.A.

H. G. Gammell
Calgary, Alberta

N. E. Goodman
Toronto, Ontario

D. W. Hilland
Calgary, Alberta

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J. Poscente
Calgary, Alberta

M. S. Reford
Aylmer East, P.Q.

G. G. Ross,
Montreal, P.Q.

R. T. Ruggles,
Montreal, P.Q.

Lord Shaughnessy
Calgary, Alberta

OFFICERS:

H. G. Gammell
President

J. Poscente
Executive Vice President

Lord Shaughnessy
Vice President and Secretary

D. W. Hilland
Assistant Secretary

M. J. Khan
Treasurer

PRINCIPAL BANKERS:

The Royal Bank of Canada

TRANSFER AGENTS:

Canada Permanent Trust Company

AUDITORS:

Clarkson, Gordon & Co.

STOCK LISTINGS:

The Toronto Stock Exchange

SUBSIDIARIES:

Canada Northwest Oils Inc.
Canada Northwest Oil (U.K.) Limited
Canada Northwest Oils (Europe) B.V.
CNWL Oil (Espana) S.A.
Thor Exploration Company Ltd.

HEAD OFFICE:

820, 355 - 4th Avenue, S.W.,
Calgary, Alberta T2P 0J1

The Annual General Meeting will be held at 2:00 P.M., January 27, 1978, in the Banff Room of the Calgary Inn, Calgary, Alberta.

Shown on the front cover is the production system currently in use at Casablanca #1A in the Gulf of Valencia, Spain, using the Bideford Dolphin semi-submersible as a production platform. Crude oil is treated and transferred, at rates of up to 9,000 barrels per day, to the moored tanker through the floating hose seen on the left of the photograph.

HIGHLIGHTS OF ACTIVITIES

	12 Months Ending September 30 1977	1976
Production (before Crown Royalties and Mineral Income Taxes)		
Oil (in barrels)	**99,772**	36,580
Gas (in Mcf.)	**3,924,622**	2,339,757
Financial		
Gross Revenue (before Crown Royalties and Mineral Income Taxes)	**$6,044,024**	$2,466,158
Income from Operations	**2,711,438**	777,523
Net Profit	**1,447,502**	377,378

Land Holdings (in acres)

	1977		1976	
	Gross	**Net**	Gross	Net
Canada:				
Freehold titles, leases and permits	**1,082,010**	**437,594**	1,110,655	417,618
Foreign:				
U.S.A., Leases	**156,942**	**61,656**	137,787	63,865
Spain, Permits	**609,395**	**56,064**	609,395	67,430
North Sea, License	**50,025**	**3,502**	50,025	3,502
Italy	**73,615**	**36,807**	36,111	18,056
Coal and Geothermal permits and leases	**262,253**	**67,436**	13,200	6,600

TO OUR SHAREHOLDERS

The tangible evidence of Canada Northwest Land's satisfactory growth during the past year can be assessed from the accompanying reports on operational activities and financial condition. But nothing exemplifies this more than the fact that, at year-end, four offshore drilling rigs were working at various locations on projects in which our Company is involved. Photographs of these vessels appear elsewhere in this report.

Gross revenue, cash flow and net profit for the year ended September 30, 1977, exhibited an accelerated growth over previous years. New production in Spain, Alberta and the U.S., plus higher prices for gas and oil, were responsible for the gains.

In Spain and the North Sea, drilling in the past year extended known reserves and opened up new prospects on our Company's holdings. In Canada, our Company has interests near two of the most recent exploration plays, West Pembina and Beaufort Sea. Additional acreage was taken up on new plays in the U.S. and several holes were drilled, some of which were productive of oil and gas.

During the coming year, it is expected that development of the Spanish discovery will continue and that income from that source will increase. Capital for this program is expected to be supplied by cash flow and debt.

Our Company's asset growth in a wide variety of areas is proceeding at gratifying rates. Part of the reason that this is possible is the economic climate in which our Company has operated — a climate, which despite restrictive policies espoused by Canadian governments at various levels, favours the ambitions of an aggressive, independent operator. Against a background of minimal economic growth in Canada at the present time, the oil industry and our Company have succeeded in extending frontiers and increasing productive capacity.

Canada Northwest Land Limited, despite the substantial growth of recent years, is indeed still on the threshold of even greater growth and financial strength. We are confident this can be attained with the continued dedication of the highly skilled and devoted members of our staff. For their efforts, the Directors are sincerely grateful.

H G Gammell

H. G. Gammell,
President.

Four drilling vessels which were engaged in operations during the year at locations where the Company has interests:

Sedco I — semi-submersible which drilled on the Alcanar permit in the Gulf of Valencia.

Bideford Dolphin — semi-submersible used as production platform at Casablanca #1A.

Ben Ocean Lancer — dynamically positioned drillship which drilled the Montanazo "D-1" and Montanazo "C-1" wells.

Venture 1 — semi-submersible which drilled the third hole on Block 3/7 in the North Sea.

REVIEW OF OPERATIONS 1977

EXPLORATION AND DEVELOPMENT

INTERNATIONAL

SPAIN

Casablanca:

In July, 1977, the discovery well Casablanca #1, was put on production after redrilling in an attempt to eliminate bottom water. The Bideford Dolphin semi-submersible drilling rig was used as a temporary production platform with oil transferred by a floating hose to a tanker moored nearby. This arrangement is illustrated on the cover of this Annual Report. By year-end, this well had produced 366,000 barrels for an average of 7,100 barrels per producing day. In October, the well was acidized and production increased to 15,000 bbls/day; however, because of very high oil temperatures and the possibility of water invasion, the production rate is being held below 9,000 bbls/day.

During the summer of 1977, a new dynamically positioned drillship, the Ben Ocean Lancer, drilled the first well on the Montanazo "D" permit immediately east of the Casablanca permit. This well, Montanazo "D-1", located $3^1/_2$ kilometers northeast of the Casablanca #2 oil well and apparently on an extension of the Casablanca field, was drilled in 1,544 feet of water. The oil zone was encountered at 8,500 feet, 60 feet higher than Casablanca #2 and the well appears to have a gross pay of 550 feet. A test of the top 25 feet of the zone flowed oil at 9,504 bbls/day although pressure data suggests that if the whole section had been tested the flow rates would have been higher. The pool now appears to extend some 11 kilometers in a northeast/southwest direction.

Current plans are to recomplete Casablanca #1 and complete Casablanca #2 in mid 1978 as satellite producers with single well diverless completion systems. Production from the two wells will continue using the temporary setup. In 1979, it is expected that the Bideford Dolphin will be replaced by a more permanent facility and that more development wells will be drilled.

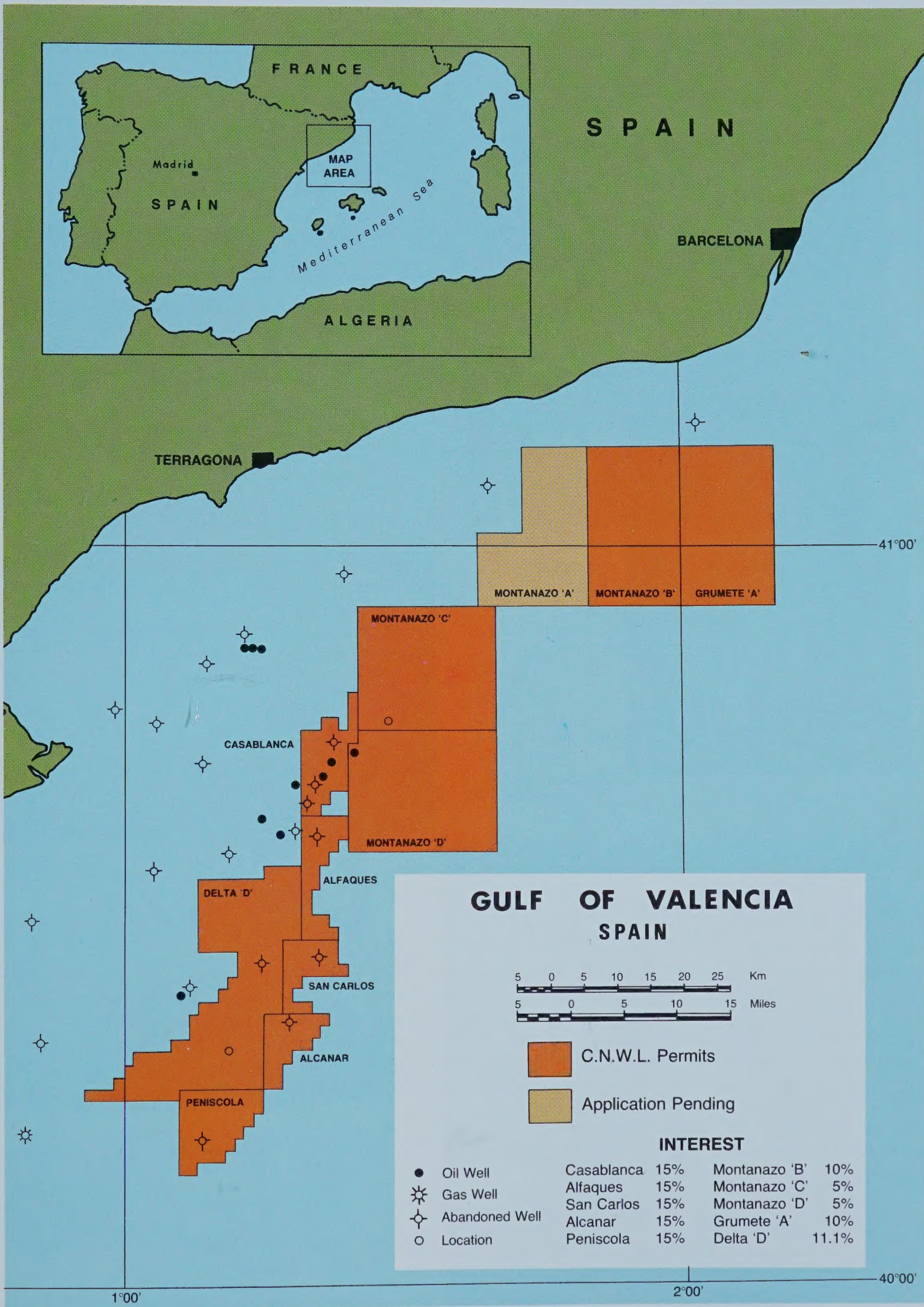
Our Company's interest in Casablanca is 15%.

Other Drilling in Spain:

During the year, the Chevron group drilled and abandoned Alfaques #1, 5 kilometers south of Casablanca, the fourth earning hole on the original five permits. The fifth and final earning hole, Alcanar Marino #1, 37 kilometers south of Casablanca, was drilled and abandoned following year-end. Also drilling at the time of writing is the Montanazo "C-1" hole, 6 kilometers northeast of Casablanca, on what appears to be a separate structure in 2,200 feet of water.

In view of the very deep water and the consequent cost risk, it was decided to farm out a portion of our Company's interest in the Montanazo "C" and "D" permits for the costs of drilling and developing any finds there. For putting up the costs of drilling the one obligation hole on each permit, the farmee earns 25% of CNWL's 10% interest. If discovery is made, the farmee may earn another 25% by putting up development funds. In addition, the Spanish government oil company has the right to participate up to 40% in a discovery, in which event Canada Northwest Land Limited would have a 3% carried interest.

In 1978, a wildcat may be drilled on the Delta "D" permit to the southwest of Casablanca.


GULF OF VALENCIA
SPAIN
FRANCE
MAP AREA
Madrid
SPAIN
Mediterranean Sea
ALGERIA
SPAIN
BARCELONA
TERRAGONA
MONTANAZO 'A'
MONTANAZO 'B'
GRUMETE 'A'
MONTANAZO 'C'
MONTANAZO 'D'
CASABLANCA
ALFAQUES
DELTA 'D'
SAN CARLOS
ALCANAR
PENISCOLA
41°00'
40°00'
1°00'
2°00'
5 0 5 10 15 20 25 Km
5 0 5 10 15 Miles
C.N.W.L. Permits
Application Pending
INTEREST
Casablanca 15%
Alfaques 15%
San Carlos 15%
Alcanar 15%
Peniscola 15%
Montanazo 'B' 10%
Montanazo 'C' 5%
Montanazo 'D' 5%
Grumete 'A' 10%
Delta 'D' 11.1%
Oil Well
Gas Well
Abandoned Well
Location

NORTH SEA BLOCK 3/7

UNITED KINGDOM

North Sea:

During the summer of 1977, the 3/7 group drilled a third hole on the south boundary of Block 3/7 jointly with Shell/Esso. The hole encountered an oil filled Brent Sand at 11,600 feet but was abandoned as the sand was too thin to produce economically. At the time of writing, Shell/Esso are drilling a follow-up hole 1½ kilometers South of 3/7-3. Decisions on further drilling on 3/7 await the results of this test and further geological, engineering and geophysical studies.

ITALY

The Company has initiated a program aimed at developing subsurface caverns for oil storage in the salt beds of southern Italy. Geological studies isolated areas of interest and these were followed up by geophysical surveys to outline salt deposits. Drilling could start during 1978.

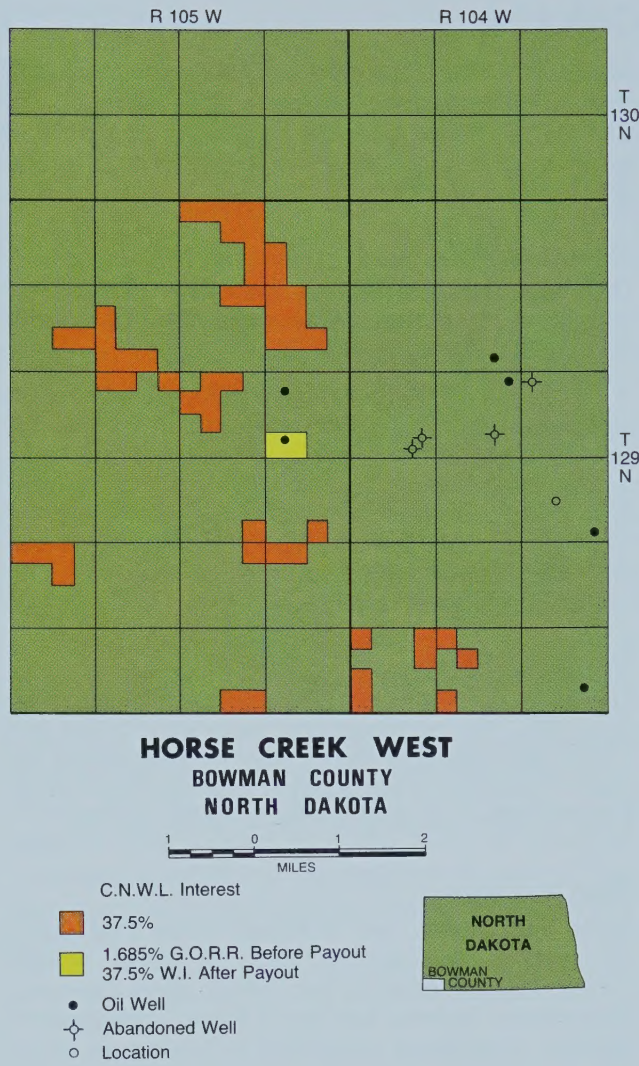
UNITED STATES

Oil and Gas:

Exploration activity was stepped up in the U.S. during the year with 11 wells being drilled, directly or by farmout, in Oklahoma, Montana and North Dakota. Two successful gas and oil wells were drilled by another company at South Wellston, Oklahoma, offsetting lands in which our Company has a 55% interest. At Horse Creek in North Dakota, another company drilled an oil well on farmed-out Company lands. After payout, our Company's interest will be 18.75%. Follow-ups could be drilled on both of these plays in 1978. Lands were acquired on seven prospects in Indiana, which will be drilled in 1978. At South Cuyama in California, our Company participated in a 6,000 foot wildcat which was dry and abandoned.

Geothermal Project:

The United States government has granted leases to the group in which our Company is a 25% participant, on 48,255 acres of geothermal prospects in the Glass Buttes region of Oregon. A major U.S. geothermal explorer also has acquired leases on two sides of our block and may drill a hole during 1978. Applications for leases by our group on another 214,000 acres in other areas of geothermal potential, are still pending. Detailed geological mapping is proceeding on all prospects.



Depco Com Trust 14-13 well at Horse Creek West in North Dakota.

CANADA

During 1977, the Company drilled, or participated in drilling, 61 holes (both wildcat and development) in Canada. Of these, 55 were successful gas wells, 2 were oil wells and 4 were dry holes, for an average success rate of 93%.

Hilda, Alberta:

The Hilda gas unit in the Medicine Hat area of southeastern Alberta, was expanded by 38 development wells early in 1977.

Sales in 1977 from the field did not fully reflect this expansion as the field was shut-in for the last three months of the year due to the current gas oversupply situation. On November 1, 1977, however, production was resumed at the rate of approximately 13 MMcf. per day and it is hoped that this level can be maintained for most of next year. Our Company's interest is 43%.

Westlock, Alberta:

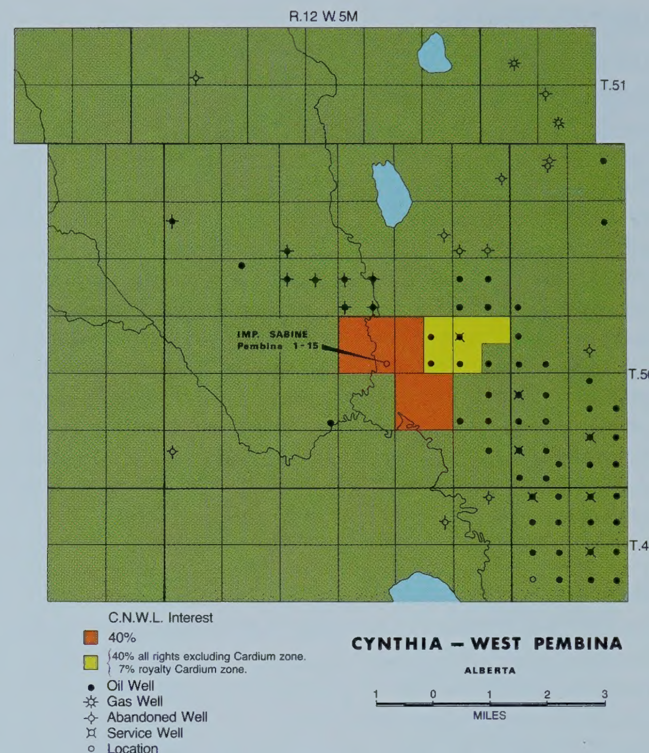
At Westlock, where our Company's interest averages 50%, five additional gas wells were drilled and a sour gas treatment facility was installed during the year. Production is expected to increase from an average 3 MMcf. per day to over 6 MMcf. per day.

West Pembina:

Along with others, our Company holds interests in 3³/₄ sections in Twp. 50, Rge. 12, W5M, in west central Alberta, close to two recent upper Devonian discoveries. Seismic surveys of these lands gave indication of drillable anomalies but because of the high risk and cost of testing the objective at 11,000 feet, the group farmed out part of the block for a hole to be drilled close to year-end. The farmee has an option to drill additional holes to earn interests in the remainder of the block. Our Company's interest will be 25% after the farmout.

Tweedie, Alberta:

A new gas plant at Tweedie, where our Company has a 35% interest, started up in December, 1976, at an average daily rate of 14 MMcf. and complimented existing facilities which have been producing for several years. Production is expected to reach 17 MMcf. per day later in the year.



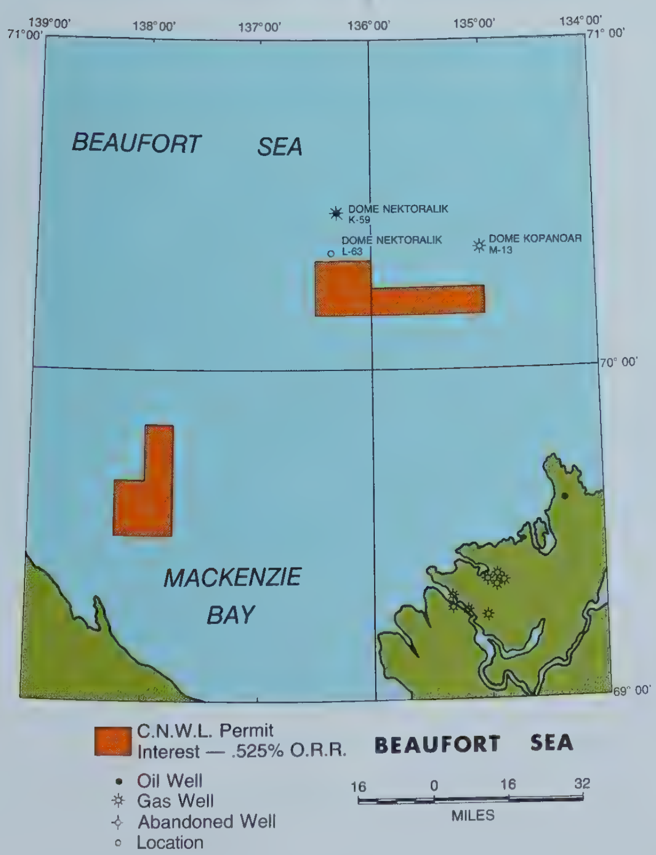
Well and tank battery CNW et al Crossfield 14-12-25-1 W5 which is located 500 yards southwest of the new Calgary Air Terminal seen in the background.


The new gas plant at Tweedie, Alberta producing 17 MMcf. per day. Company's interest is 35%.

Other Areas in Canada:

During the year, the Olds, Alderson, Stanmore gas projects started up and first production was received from oil wells at Turin and Little Bow in southern Alberta.

Our Company holds a one-half of 1% royalty interest on a permit in the Beaufort Sea, adjoining that on which Dome drilled one of its three gas and oil discoveries during the summer of 1977. Dome's Nektoralik K-59 well lies $9^1/_2$ miles north of the permit and their Nektoralik L-63, 2 miles north of the permit, is to be drilled in 1978.



RESERVES

Our Company's North American proven and probable reserves after royalties are estimated as follows:

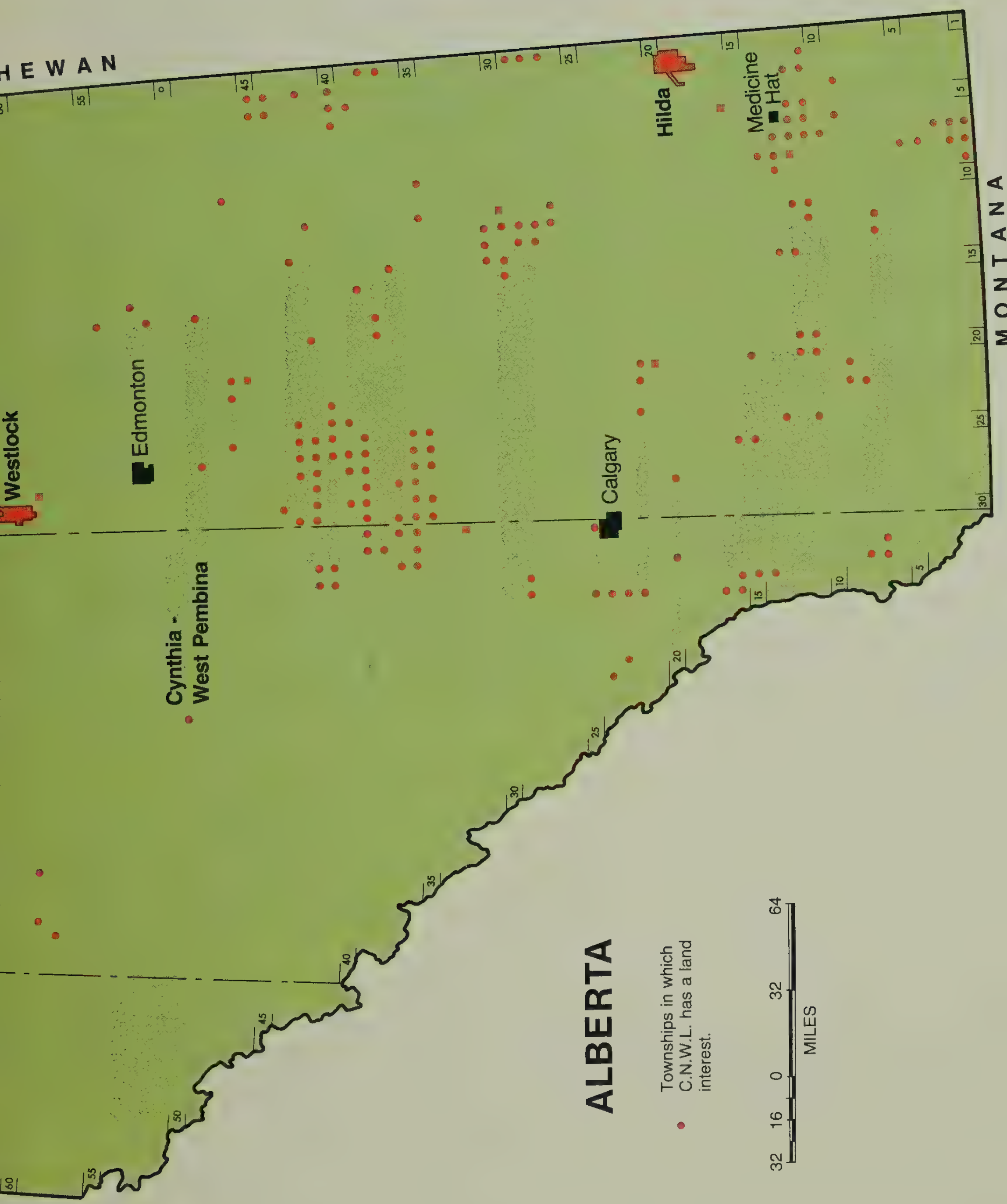
Net Gas Reserves	45,600 MMcf.
Net Oil Reserves	866,000 barrels

In the two year period since the last reserves report, some Hilda gas reserves were sold and additions to oil reserves were made at Turin in Alberta, Weyburn, Midale in Saskatchewan, and to gas reserves at Tweedie, Turin and Alderson, all in Alberta.

Reserves estimates have not been prepared for either the North Sea interests or the Casablanca pool off Spain. In the case of Block 3/7 in the North Sea, reliable estimates will have to await further delineation drilling of the three discoveries made so far on the block.

Casablanca, off the coast of Spain, presents a different problem. The fractured nature of the reservoir rock makes it almost impossible to recover cores of the rock itself on which estimates of recoverable reserves are usually based. An alternative method of establishing reservoir parameters is to produce the reservoir. This is being done now, but it will take time to develop a concept of the reservoir. In view of this, development is proceeding relatively slowly and cautiously.


NORTHWEST TERRITORIES
ALBERTA
Tweedie
Fifth Meridian
Sixth Meridian
BRITISH COLUMBIA


HEWAN
Westlock
Edmonton
Cynthia - West Pembina
Calgary
Hilda
Medicine Hat
MONTANA
ALBERTA
Townships in which C.N.W.L. has a land interest.
32 16 0 32 64
MILES

INVESTMENTS

Panarctic Oils Ltd.:

Canada Northwest Land Limited, through a wholly owned subsidiary, owns a 3.63% interest in this Arctic Islands exploration consortium. During the past year, seven holes were drilled in the Melville Island gas areas and in the Bent Horn oil area on Cameron Island. All were dry or were of doubtful economic value.

It is felt that the prospect of markets for gas already discovered by Panarctic was improved by the withdrawal of the Mackenzie Valley Pipeline application and by the forthcoming application by Polar Gas Pipeline, expected late in the year. In addition, a group associated with Panarctic is actively investigating the feasibility of moving gas South by LNG tanker.

For the 1977-78 winter drilling season, Panarctic has 10 holes planned, of which three or four will be offshore, drilled on thickened ice platforms. These holes will be the first tests of the very large Arctic Islands farmouts taken last year from the Sun-Global Marine group. In addition, the first well to be completed as an undersea producer connected to onshore production facilities by underwater pipelines will be drilled in the Drake Point gas field off Melville Island. A diverless subsea tree similar to that being constructed for our Company's Spanish production, will be used for production.

Rio Alto Exploration Ltd.:

During 1977, Rio Alto, a 27% owned affiliate, was active in the exploration of a number of mineral prospects. Of major importance are the results of a $200,000 drilling and exploration program on its Rusty Springs silver-lead-copper-zinc prospect in the Ogilvie Mountains area of the Yukon. Diamond drilling totalling 3,200 feet was carried out with significant sections of high grade silver, lead and copper mineralization being encountered. Surface exploration resulted in new discoveries up to 1½ miles from the original showings. Rio Alto has a 100% interest in the 180 claims covering these occurrences.

Diamond drilling was also carried out on Rio Alto's uranium interests in the Elliot Lake area of Ontario. Two holes were drilled, both of which encountered economic grades of uranium over mineable widths. Drilling will continue during the winter of 1977-78. Other uranium prospects in the Yukon and Northwest Territories have been farmed out for further exploration.

In Spain, a geochemical and geological exploration program on Rio Alto's 60 square mile concession is currently underway. Numerous lead and copper occurrences are being investigated. Canada Northwest Land Limited has an option to earn a 50% interest in this prospect.

Diamond drilling on Rio Alto Exploration Ltd.'s mineral prospect at Rusty Springs in the Yukon.

FINANCIAL

The statements attached show audited figures for the 12 months ending September 30, 1977 compared with restated figures for the 12 months ending September 30, 1976. Year-ends prior to 1976 were December 31.

For the year ending September 30, 1977, gross revenues before deducting royalties and mineral taxes, grew by 145% to $6,044,000. Gains were due primarily to the start-up of oil production in Spain in the last quarter, and new gas projects and expansions of existing projects at Westlock, Hilda, Tweedie and Olds. Gas production at Hilda and Tweedie was shut-in at various times during the final quarter, reflecting the inability of the pipeline purchaser to take gas. Production resumed in November in these pools. The average price for oil received during the year was $9.32 compared with $8.20 last year, and for gas, $1.18 compared with 93¢.

It is expected that further substantial gains will be recorded in 1978 income as a full year of production is experienced in new and expanded projects and as prices continue to rise.

Royalties and other payments to governments increased 116% to $1,424,000 while other cash costs rose 38% to $1,909,000. The latter reflected both the effects of inflation, enlarged exploratory programs and higher production levels. Income from operations gained 249% to $2,711,000 or 43¢ per share compared with $778,000 or 12¢ a share in the previous year.

Non-cash charges (including deferred income taxes of $480,000) increased 216% to $1,264,000 due to greater expenditures in Spain and the U.S. not yet offset by a comparable gain in production. A net profit for the year of $1,448,000 or 23¢ a share, up 284%, compared with $377,000 or 7¢ a share last year.

Expenditures on exploration and development were $10,713,000 compared with $7,302,000 last year. Funds were provided from cash flow, increased bank loans and sales of assets. Working capital increased by $1,890,000 in the year. Additional lines of credit with banks are being negotiated to cover 1978 capital needs.

OTHER

At the forthcoming Annual and Special General meeting, shareholders will be asked to approve the Company's application for continuance under the Canada Business Corporations Act.

SUMMARY OF ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries.

Oil and gas properties

The Company follows the full cost method of accounting whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized and charged against income as set out below. Such costs include land acquisition costs, geological and geophysical expenditures, carrying charges of non-producing property, costs of drilling both productive and non-productive wells, and overhead expenses related to exploration and development activities. The costs are accumulated in cost centres as follows:

(i) North America
(ii) Spain
(iii) Other — generally on a country by country basis.

Depletion is provided each year on costs accumulated in the North America and Spain cost centres in the proportion that the year's production of oil and gas bears to proven reserves (the composite unit of production method).

Expenditures incurred in other areas are being deferred pending the results of exploration still in progress in each area. These costs will be depleted on the basis of reserves discovered or written off to income if exploration activities prove unsuccessful.

Production and other

Oil and gas production equipment costs are depreciated on the composite unit of production basis. Other equipment is depreciated on the declining balance method at rates designed to amortize the cost of the assets over their estimated useful lives.

Translation of foreign currencies

In translating foreign currency amounts, current assets and liabilities are translated at exchange rates prevailing at the balance sheet date, property and equipment and long-term debt at exchange rates in effect on the date of the transaction and revenue and expenses at average rates, except depletion and depreciation, which are translated at the rates of exchange which were in effect when the respective assets were acquired.

The resulting exchange loss, which is not material in amount, has been charged to income.

Income taxes

The Company follows the tax allocation basis of accounting for income taxes.

Interest

The Company follows the policy of capitalizing interest on borrowings which can be specifically identified with the purchase or construction of property and equipment including the development of oil and gas properties. When the facility commences operations the subsequent interest is charged to income.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED SEPTEMBER 30, 1977
(with comparative figures for the year ended September 30, 1976)

	1977	1976
Revenue:		
Oil and gas sales (after royalties and mineral income taxes of $1,423,766; 1976 — $660,334)	**$4,091,840**	$1,805,824
Royalty income	**424,311**	211,245
Interest and other income	**104,107**	145,432
	4,620,258	2,162,501
Deduct:		
Operating expense	**1,112,873**	365,555
General and administrative expense	**611,228**	507,406
Interest on long term debt (Note 1)	**133,598**	441,296
Mineral taxes	**51,121**	70,721
	1,908,820	1,384,978
Income from operations before the following	**2,711,438**	777,523
Deduct:		
Depletion	**508,630**	168,902
Depreciation	**275,001**	125,111
Amortization of debt discount and financing costs	**—**	16,789
	783,631	310,802
Income for the year before deferred income taxes	**1,927,807**	466,721
Deferred income taxes net of provincial government rebates of $394,475 (1976 — $125,245)	**480,305**	89,343
Net income for the year	**$1,447,502**	$ 377,378
Net income per share based on average shares outstanding	**23¢**	7¢

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED SEPTEMBER 30, 1977
(with comparative figures for the year ended September 30, 1976)

	1977	1976
Balance at beginning of year	**$ 298,843**	$107,363
Net income for the year	**1,447,502**	377,378
	1,746,345	484,741
Deduct:		
Commission and expenses on issue of common shares	**—**	185,898
Balance at end of year	**$1,746,345**	$298,843

See accompanying summary of accounting policies and notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 1977
(with comparative figures at September 30, 1976)

ASSETS

	1977	1976
CURRENT:		
Cash	$ 347,776	$ 237,582
Accounts receivable — trade	1,489,221	471,756
— recoverable taxes	428,434	133,530
Prepaid expenses and supplies	5,687	58,775
	2,271,118	901,643
INVESTMENTS — at cost:		
Panarctic Oils Ltd.	15,583,976	15,583,976
Rio Alto Exploration Ltd. (market value — $640,410; 1976 — $193,725)	243,140	122,250
	15,827,116	15,706,226
PROPERTY AND EQUIPMENT:		
Oil and gas properties — at cost less accumulated depletion of $1,726,559 (1976 — $1,217,929)	14,501,624	9,273,312
Production and other equipment — at cost less accumulated depreciation of $655,828 (1976 — $380,827)	8,128,125	4,628,503
	22,629,749	13,901,815
OTHER:		
Long term receivables and deposits (Note 2)	601,272	723,645
	$41,329,255	$31,233,329

LIABILITIES AND SHAREHOLDERS' EQUITY

	1977	1976
CURRENT:		
Accounts payable and accrued charges	**$ 1,337,397**	$ 1,853,029
Long term debt due within one year (Note 1)	**228,554**	33,154
	1,565,951	1,886,183
LONG TERM DEBT (Note 1)	**8,929,500**	961,169
DEFERRED INCOME TAXES	**1,204,002**	329,222
SHAREHOLDERS' EQUITY:		
Capital (Note 2)		
Authorized:		
8,000,000 common shares of no par value		
Issued:		
6,253,583 common shares (1976 — 6,234,677)	**27,883,457**	27,757,912
Retained earnings	**1,746,345**	298,843
	29,629,802	28,056,755
	$41,329,255	$31,233,329

On behalf of the Board:

Director

Director

See accompanying summary of accounting policies and notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 1977
(with comparative figures for the year ended September 30, 1976)

	1977	1976
Sources of working capital:		
Operations —		
Net income for the year	$ 1,447,502	$ 377,378
Add non-cash charges:		
Depreciation and depletion	783,631	294,013
Deferred income taxes	874,780	225,560
Amortization of debt discount and financing costs	—	16,789
	3,105,913	913,740
Sale of oil and gas properties and equipment	1,201,852	2,036,197
Bank loans	8,019,885	1,200,000
Issue of common shares	125,545	12,046,862
Decrease in long term receivables and deposits	122,373	—
	12,575,568	16,196,799
Disposition of working capital:		
Expenditures on oil and gas properties and equipment:		
Drilling and exploration	6,325,938	3,995,156
Acquisition costs and rentals	443,664	450,849
Production and other equipment	3,943,815	2,855,756
Repayments of long term debt	51,554	3,652,653
Conversion of debentures to common shares	—	5,000,000
Purchase of shares in Rio Alto Exploration Ltd.	120,890	—
Financing costs	—	109,394
Increase in long term receivables and deposits	—	93,384
	10,885,861	16,157,192
Increase in working capital	$ 1,689,707	$ 39,607

See accompanying summary of accounting policies and notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1977

1. **Long term debt**

	1977	1976
Bank loan with interest at 1¼% per annum in excess of the prime bank interest rate	**$2,500,000**	$500,000
Bank loan (U.S. $6,388,027) with interest at 1¼% per annum in excess of the prevailing bank interest rate	**6,515,285**	300,000
9% Interest bearing notes due $28,554 annually	**142,769**	194,323
	9,158,054	994,323
Less amounts due within one year	**228,554**	33,154
	$8,929,500	$961,169

Although the bank loans are evidenced by a demand note, the bank has indicated that they will accept repayment over a five year period commencing in May of 1978. The loans are secured by certain oil and gas properties.

If the U.S. dollar loan had been translated at the rate of exchange prevailing at September 30, 1977, the equivalent Canadian dollar amount payable would have been increased by $341,623.

Interest of $365,263 relating to the U.S. dollar loan incurred in respect of development in Spain has been capitalized.

2. **Capital**

Under the terms of the Company's Stock Purchase Plan, the Company has agreed to advance funds to a Trustee to be used by the Trustee for the purchase and immediate resale to employees of shares of the Company's capital stock at prices based on the average sale price of the shares as determined on the date of the transaction. In addition, the Company has agreed to contribute fifty percent of the cost of the shares purchased under the Plan.

During the year, 18,906 shares were issued under the terms of the Plan for $123,422 of which the Company contributed $61,717.

The Company has also advanced funds to employees to allow them to purchase shares pursuant to a previous rights offering.

At September 30, 1977, $525,000 was receivable by the Company under the above arrangements and is included in long term receivables and deposits.

10,238 shares of the Company's common stock were reserved at September 30, 1977 as follows:

1,832 shares for options granted to an officer exercisable as to 1,400 shares at $6.95 per share and as to 432 shares at $6.63 per share and expiring on various dates to December 31, 1978;

8,406 shares for options granted to employees exercisable at rates at $6.95 and $6.63 per share and expiring on various dates to December 31, 1978.

3. **Remuneration of directors and officers**

During the year ended September 30, 1977, the aggregate remuneration of the ten directors in their capacity as directors was $20,325 (1976 — $3,125) and the remuneration of the five officers in their capacity as officers was $171,100 (1976 — $123,966). Four of the officers are also directors.

FIVE YEAR FINANCIAL AND OPERATING SUMMARY

	Years Ending September 30		Years Ending December 31		
	1977	1976 9 Months	1975	1974	1973
Gross Revenue (before royalties)	**$ 6,044,024**	$2,236,202	$ 1,805,260	$ 1,139,506	$ 738,423
Cash Flow (including Provincial tax rebates)	**$ 3,105,913**	$ 790,975	$ 317,316	$ 50,191	$ 220,644
Net Earnings or (Loss)	**$ 1,447,502**	$ 338,739	$ (217,031)	$ (423,495)	$ (32,749)
Shares Outstanding	**6,253,583**	6,234,677	4,349,164	4,204,274	4,191,119
Gross Production:					
Oil (Bbls.)	**99,722**	27,435	37,862	168,700	191,426
Gas (MMcf.)	**3,925**	1,755	2,012	1,188	661
Development and Exploration Drilling:					
Gross wells	**74**	58	40	58	58
Gas	**55**	40	27	42	42
Oil	**5**	5	3	4	5
Dry	**14**	13	1	12	11
Success Percentage	**81**	78	97	79	81
Expenditures on Exploration and Development	**$10,713,417**	$6,392,257	$ 2,638,314	$ 3,587,038	$ 2,862,415

AUDITORS' REPORT

To the Shareholders of Canada Northwest Land Limited

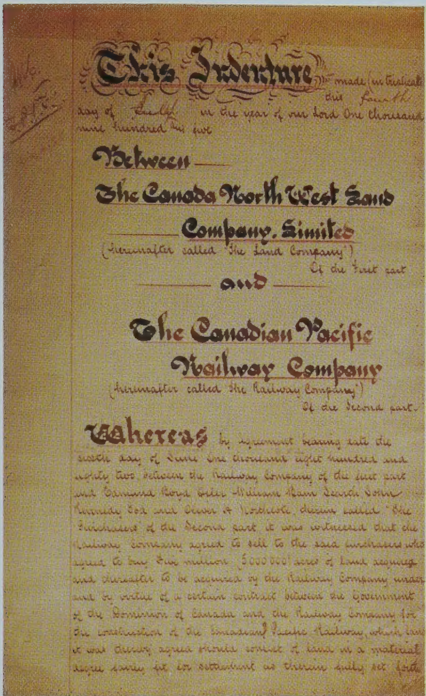
We have examined the consolidated balance sheet of Canada Northwest Land Limited as at September 30, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at September 30, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Calgary, Canada
November 10, 1977

CLARKSON GORDON & CO.
Chartered Accountants



This Indenture

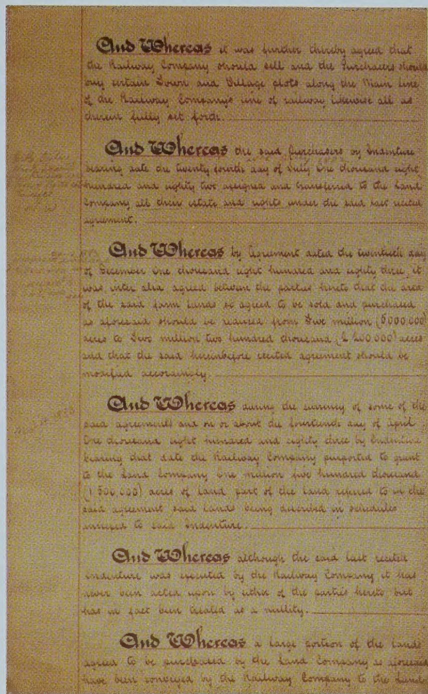
Between

The Canada North West Land Company, Limited

and

The Canadian Pacific Railway Company

Whereas



And Whereas

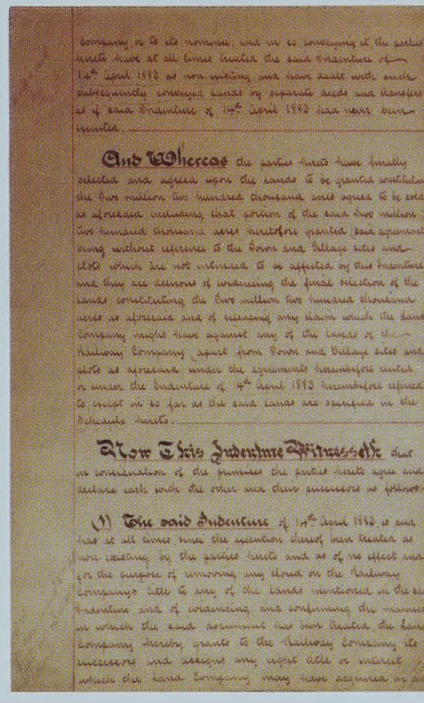
And Whereas

And Whereas

And Whereas

And Whereas

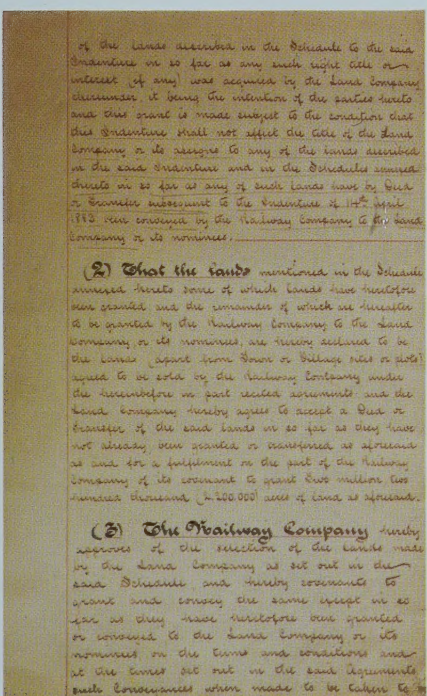
And Whereas



And Whereas

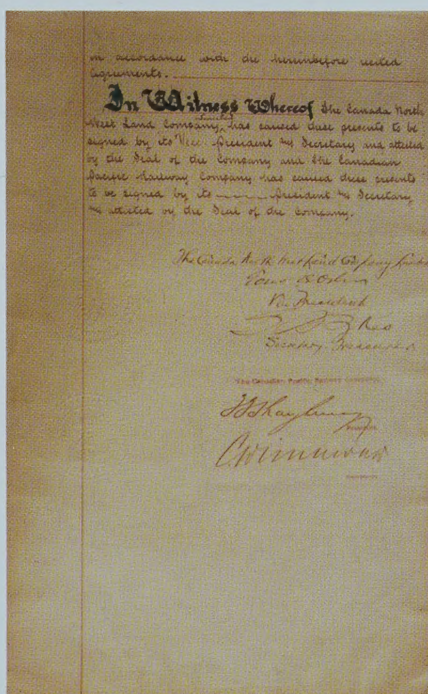
Now This Indenture Witnesseth

(1) The said Indenture



(2) That the lands

(3) The Railway Company



In Witness Whereof

A reproduction of the Indenture dated July 4th, 1905, conveying 2,200,000 acres of land in western Canada from the Canadian Pacific Railway Company to The Canada Northwest Land Company Limited which completed the original land-sale agreement of 1883 between the two companies.

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ANNUAL REPORT 1977

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CANADA NORTHWEST LAND LIMITED

Consolidated Statement of Changes in Financial Position

For Six Months Ended March 31, 1977
(Unaudited)

Sources of Working Capital:	
Operations:	
Net income	
for the period	$ 617,472
Add non-cash charges:	
Depreciation and depletion	286,680
Deferred income taxes	420,568
	1,324,720
Sale of oil and gas properties and equipment	1,297,444
Bank loans	5,695,206
Issue of Common shares	60,829
Reduction of long term receivables	94,175
	8,472,374
Disposition of Working Capital:	
Expenditures on oil and gas properties and equipment:	
Drilling and exploration	3,626,593
Acquisition costs and rentals	271,580
Production and other equipment	2,677,231
Repayments of long term debt	33,154
Investments	142,500
	6,751,058
Increase in working capital	$1,721,316
Working capital at end of period	$ 736,777

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CANADA NORTHWEST LAND LIMITED
920, Three Calgary Place,
355 - 4th Avenue S.W., Calgary, Alberta T2P 0J1

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Globe & Mail,
Report on Business,
140 King St. W.,
Toronto, Ontario.

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INTERIM REPORT

CANADA NORTHWEST LAND LIMITED

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SIX MONTHS ENDING
MARCH 31, 1977

ALCRAFT - CALGARY
LITHOGRAPHED IN CANADA

TO OUR SHAREHOLDERS:

For the six months ending March 31, 1977, all sources of income were higher than for the same period of 1976. Gross revenue gained 99% to \$1,816,000 while cash costs fell 11% to \$631,000, resulting in a 493% gain in cash flow to \$1,185,000 or 19¢ a share. Non-cash charges and deferred income taxes totalled \$568,000, compared with \$149,000 last year and a first half net profit of \$617,000 or 10¢ a share was recorded. In the same period of 1976, earnings were \$51,000 or 1¢ a share.

New gas projects and expansions at Olds, Tweedie, Westlock and Hilda, all in Alberta, were the main contributors to income growth during the first half of the year. No revenue from production offshore Spain is included in income since it was only toward the end of the half that steps were taken to place the Spanish discovery well — Casablanca #1 — on production, using a converted semi-submersible drilling platform connected to a moored tanker with a floating hose. In September, 1975, the well, which had been drilled through the 500-foot oil zone and into the underlying water zone, was cased to total depth and suspended for re-entry. When the well was re-entered this spring, testing revealed that the underlying water zone had not been cemented off and it was found necessary to drill another well from the same location. This hole is expected to be ready for production during June.

Our estimates of Casablanca's production potential have not been altered by this mechanical "start-up" problem, and plans are continuing for full-scale production of the field as soon as possible. An order has been placed for the design and fabrication of a single well diverless subsea completion system. This "wet tree" will be delivered early in 1978 coincident with the delivery of the group's semi-submersible production platform, now under construction. Additional development wells will probably be drilled next year and the field could be on full-scale production by late 1978.

Plans have been made by the Chevron farmee group to drill the final earning well on the last of our original five permits. This test, Alcanar #1, will be drilled 23 miles south of the discovery during the second half of 1977. The first well on the Montanazo "D" permit, 2 1/2 miles northeast of the Casablanca #2 oil well and located on what may be a northeast extension of the field, is expected to be drilled following the Alcanar well. The first well on the Montanazo "C" permit, 6 1/2 miles northeast of Casablanca #2, and located on what may be a separate structure, will be drilled after Montanazo D-1. These two wells are in 1600 and 2200 feet of water, respectively. In view of the risks and costs involved in this deep water drilling, our Company farmed out half of its 10% interest in these two blocks in return for the farmee paying our share of the costs of each well and a commitment to supply all development funds in event of a discovery.

During the second quarter, another operator made an upper Devonian oil discovery on the west side of the Pembina oil field of west central Alberta. Our Company owns a 40% interest in 3 3/4 sections of lease, 3 1/2 miles north of the discovery. Subsequent to the discovery, two follow-up holes were drilled. One, 3 1/2 miles north of the discovery and 1 mile west of our block, was apparently a producer. The other, 3 miles northeast of the discovery and 1 mile south of our block, is dry. Our Company is planning an immediate seismic program over these leases to determine their potential. Drilling may follow later in the year.

The U.S. President has announced new programs to encourage the development of unconventional power sources in that country. These recommended proposals — if implemented — should benefit our Company which has a 26% interest in a consortium actively exploring 268,000 acres of geothermal leases in the States of Washington, Oregon, Idaho and California.

May 11, 1977

H. G. Gammell,
President.

CANADA NORTHWEST LAND LIMITED

Consolidated Statement of Income

(Unaudited)

	SIX MONTHS ENDED Mar. 31, 1977	Mar. 31, 1976
Revenue:		
Oil and Gas Sales (net of royalties — 1976 - \$268,614; 1977 - \$538,700)	\$1,594,941	\$753,438
Royalties and other operating revenue	200,939	120,429
Investments and Miscellaneous	19,849	38,536
	\$1,815,729	\$912,403
Expenses:		
Operating Costs	\$ 257,508	\$168,125
General and administrative costs (net of management fees)	278,449	253,234
Mineral Taxes	30,057	40,367
Interest	64,613	250,642
	\$ 630,627	\$712,368
Cash Income from Operations:	\$1,185,102	\$200,035
Deduct:		
Depletion and Depreciation	\$ 286,680	\$ 95,540
Amortization financing costs	—	9,471
	\$ 286,680	\$105,011
Profit before income taxes:	\$ 898,422	\$ 95,024
Deferred income taxes (net of Provincial rebates)	\$ 280,948	\$ 44,058
Net Profit for period	\$ 617,474	\$ 50,966
Net earnings per share	10¢	01¢